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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE POWER COST)
ADJUSTMENT (PCA) ANNUAL RATE)
ADJUSTMENT FILING OF AVISTA)
CORPORATION)

CASE NO. AVU-E-13-04
DIRECT TESTIMONY OF
WILLIAM G. JOHNSON

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with Avista**
3 **Corporation.**

4 A. My name is William G. Johnson. My business address is 1411 East Mission
5 Avenue, Spokane, Washington, and I am employed by Avista Utilities ("Avista" or "Company")
6 as a Wholesale Marketing Manager in the Energy Resources Department.

7 **Q. What is your educational background?**

8 A. I graduated from the University of Montana in 1981 with a Bachelor of Arts
9 Degree in Political Science/Economics. I obtained a Master of Arts Degree in Economics from
10 the University of Montana in 1985.

11 **Q. How long have you been employed by the Company and what are your duties**
12 **as a Wholesale Marketing Manager?**

13 A. I started working for Avista in April 1990 as a Demand Side Resource Analyst. I
14 joined the Energy Resources Department as a Power Contracts Analyst in June 1996. My
15 primary responsibilities involve power contract origination and management and power supply
16 regulatory issues.

17 **Q. What is the scope of your testimony in this proceeding?**

18 A. My testimony will provide a brief summary of the factors driving power supply
19 expenses during the review period July 2012 through June 2013. I also describe new long-term
20 contracts the Company entered into during the deferral period and the supporting documentation
21 that is provided in electronic format.

1 **II. SUMMARY OF DEFERRALS**

2 **Q. Would you please summarize power supply expenses during the July 2012**
3 **through June 2013 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses were
5 lower than the authorized level by \$6,805,121, excluding the Clearwater Paper and Palouse Wind
6 related differences. Certain changes in revenues and expenses are tracked at 100% in the PCA,
7 per prior Commission orders, such as the Clearwater Paper power purchase expense, and the
8 Clearwater Paper retail revenue related to the level of Clearwater generation¹. The power
9 purchase expense for Palouse Wind was also tracked at 100% through March 2013². The
10 Company absorbs \$680,512 with the 90%/10% sharing, leaving a balance of \$6,124,608 in the
11 rebate direction. The \$6,124,608 rebate plus the Clearwater Paper differences of \$56,003 in the
12 surcharge direction and the Palouse Wind power purchase expense of \$2,193,425 in the
13 surcharge direction results in a net deferral for the period of \$3,875,180 in the rebate direction.

14 **Q. What factors contributed to the lower power supply expense during the**
15 **review period?**

16 A. Overall, lower power costs were due primarily to above normal hydro generation,
17 lower natural gas and power prices, and lower costs for Colstrip and Kettle Falls generation.
18 Lower natural gas prices reduced the cost to generate with natural gas-fired resources. The
19 average market power price during the review period was \$25.89/MWh compared to an

¹ The Clearwater Paper power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004.

² The Palouse Wind power purchase expense was tracked at 100% through March 2013 per Idaho Public Utilities Commission Order No. 32371 dated September 30, 2011. Effective April 1, 2013, the Palouse Wind power purchase expense is included in the PCA subject to the normal 90%/10% sharing until it is included in base rates as a part of the implementation of new rates from the Company's next general rate case anticipated in 2015, per Order 32769 dated March 27, 2013 (Case AVU-E-12-08).

1 authorized average price of \$35.62/MWh. The average natural gas price during the review
2 period was \$3.47/dth compared to an authorized average price of \$4.34/dth.

3 Partially offsetting the lower spot market natural gas and power prices was the cost of
4 prior fixed-priced purchases of natural gas and power through the Company's hedging program.
5 Avista's hedging program layers in energy purchases (both power and natural gas) to serve load
6 in future periods. Energy purchases are made up to three years prior to delivery period under the
7 hedging program. Because spot market energy prices have been declining over the past several
8 years, these prior purchases were made at prices higher than the spot market natural gas and
9 power prices during the review period. Avista did not include these known actual purchases in
10 the power supply expense included in base rates, which lowered the authorized level of expense
11 in the PCA. The higher expense of these prior purchases is flowed through the PCA and in this
12 instance, reduced the PCA rebate.

13 The Palouse Wind power purchase also added to the expense during the period. The
14 actual purchase expense for the July 2012 through June 2013 was approximately \$3.5 million.³
15 However, when the purchase expense is netted against the market value of the power for the
16 same July 2012 through June 2013 period, the expense increase due to Palouse Wind was
17 approximately \$1.5 million. The Company also sold the Renewable Energy Credits from Palouse
18 Wind for \$554,769 through April 2013, of which Idaho's share was approximately \$193,000.

19 The table below shows a summary of the major factors driving the deferrals during the
20 review period.

21

³ Of the approximate \$3.5 million Palouse Wind power purchase expense (Idaho's share), approximately \$2.2 million was deferred at 100% for the July 2012 through March 2013 time period, and \$1.3 million was deferred for April 2013 through June 2013 (90% share).

Factors Contributing to Increased (Decreased) Power Supply Expense July 2012 - June 2013 - Idaho Allocation	
Change due to Hydro Generation	-\$1,504,325
Change due to Gas-Fired Generation, Fuel and Power Expense (1)	-\$4,327,324
Change due to Colstrip & Kettle Falls Generation and Fuel Expense	-\$1,309,976
Change in Net Transmission Expense (Expense - Revenue)	\$590,167
Change due to Retail Loads	-\$253,663
Total Expenses Above (Below) the Authorized Level	-\$6,805,121
10% Absorbed by the Company	\$680,512
Clearwater Paper Generation and Revenue Variance	\$56,003
Palouse Wind Recoverd at 100% Through March 2013 (2)	\$2,193,425
Total Power Cost Deferrals, Surcharge (Rebate)	-\$3,875,180

1) Includes the affect of fixed-price power and natural gas purchases through the Company's hedging program.

2) This is the Palouse power purchase expense only and not the net expense considering the value of the power generated, which is less than the gross expense.

Over the review period, hydro generation was 47 aMW above the authorized level. Gas-fired generation was 15 aMW above the authorized level due to the economics of an increased spark spread. Colstrip and Kettle Falls generation was 7 aMW above and 10 aMW below the authorized levels, respectively. Retail loads were 4 aMW above the authorized level.

The table below shows the change in generation and retail loads from the authorized levels.

July 12 - June 13 Generation and Load Differences from the Authorized Level

	<u>Change</u> aMW	<u>Change</u> %
Change in Hydro Generation	47.3	9.0%
Change in Gas-Fired Generation	15.0	5.0%
Change in Colstrip Generation	7.1	3.9%
Change in Kettle Falls Generation	-9.8	-26.2%
Change in Idaho Retail Load	4.0	1.2%

III. NEW LONG-TERM CONTRACTS ENTERED INTO

DURING THE REVIEW PERIOD

Q. Please provide a brief description of new long-term contracts that the Company entered into during the review period.

A. The Company entered into three new long-term contracts during the review period. The Company entered into two contracts with Douglas PUD in December 2012. One contract was for the purchase of exchange capacity for the period January 2013 through December 2013. The other contract was for purchase of the Colville Indian Tribe's share of the Wells hydroelectric project for the period January 2013 through September 2014. The Company had similar contracts in place during 2012. In April 2013 the Company entered into a three-year and nine-month PURPA contract with a 411 kW hydroelectric generator. This facility had previously provided power to Avista, but had been mothballed for 10 years. Electronic copies of these contracts have been provided with this filing.

1 **IV. SUPPORTING DOCUMENTATION**

2 **Q. Please provide a brief overview of the documentation provided by the**
3 **Company in this filing.**

4 A. The Company maintains a number of documents that record relevant factors
5 considered at the time of a transaction. The following is a list of documents that are maintained.
6 Unless noted, these documents have been provided on a compact disk as part of this filing.
7 Other documents will be provided on request:

8 Electric/Gas Transaction Record: These documents record the key details of the price,
9 terms and conditions of a transaction and include a discussion of market conditions at the
10 time of the transaction, the reason for the transaction, and pertinent transmission or other
11 delivery issues. The Company has provided worksheets showing the important details of
12 each electric and natural gas term transaction during the review period. Additional
13 documentation will be provided on request.

14 Position Reports: These daily reports show the daily and term purchases each business
15 day and provide a summary of market power and natural gas prices over a 36-month
16 forward period.

17 Forward Market Electric and Natural Gas Price Curves: This daily data shows forward
18 market prices for electricity and natural gas and is maintained in Nucleus, the Company's
19 electronic energy transaction database record system. Forward market prices are
20 included in the daily Position Reports.

21 **Q. Does that conclude your direct pre-filed testimony?**

22 A. Yes.